

Message Text

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ACTION EUR-25

INFO OCT-01 ADP-00 AGR-20 CEA-02 CIAE-00 COME-00 DODE-00

EB-11 FRB-02 H-02 INR-10 INT-08 L-03 LAB-06 NSAE-00

NSC-10 PA-03 RSC-01 AID-20 CIEP-02 SS-15 STR-08

TAR-02 TRSE-00 USIA-12 PRS-01 OMB-01 RSR-01 /166 W
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FOR COMMERCE PRIORITY DEADLINE COB JUNE 15

E. O. 11652: N/ A

TAGS EFIN, BEXP SP

SUBJECT: IMPLICATIONS FOR US EXPORTS OF RECENT FOREIGN
EXCHANGE DEVELOPMENTS

REF STATE 113343; STATE 77866

1. EMBASSY HAS DISCUSSED AND CONTINUES TO DISCUSS WITH
TRADE SOURCES EFFECTS OF NEW PESETA/ DOLLAR EXCHANGE
RELATIONSHIPS ON US PRODUCT COMPETITIVENESS IN LOCAL
AND THIRD COUNTRY MARKETS. HOWEVER WE STILL MAINTAIN
INSUFFICIENT TIME HAS ELAPSED TO MAKE ANYTHING MORE THAN
" OFF THE TOP OF THE HEAD" ESTIMATES AS TO SPECIFIC
RESULTS HERE, PARTICULARLY AS CALLED FOR IN STATE 77866.

2. SPAIN IS NOT AND NOT LIKELY BECOME A MAJOR MARKET
FOR US PRODUCED CONSUMER GOODS. OF TOP TEN COMMODITIES
IN US EXPORT TRADE TO SPAIN WHICH ACCOUNT FOR OVER 2/3
TOTAL AT LEAST FIVE REPRESENTING APPROXIMATELY 40 PERCENT OF
US TRADE -- OILSEEDS, AIRCRAFT, CORN, COAL, TOBACCO--
HAVE RELATIVELY HIGH PRICE INELASTICITY AND THE US
IS ALREADY PREDOMINANT OR A NECESSARY RESIDUAL SUPPLIER.
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3. AS RESULT OF GOS ACTION TO PREVENT IMPORTERS EFFECT-
ING WINDFALL PROFITS DOLLAR REMITTANCES FOR ORDERS
PLACED ON OR PRIOR TO DEVALUATION HAD TO BE PAID AT THE
OLD RATE. RESULT HAS BEEN THAT ONLY NOW ARE ITEMS
COMING INTO MARKET BENEFITING FROM REDUCED PRICE. IN
GENERAL, SITUATION MIXED RELATIVE TO EXTENT REALIGNMENT
"PASSED THROUGH" TO RETAIL OR FINAL SALES LEVEL. SOME
MAJOR MULTINATIONAL AND/ OR DISTRIBUTORS FOR THEM, AS
THEY DID AFTER 1971 DEVALUATION, HAVE INDICATED THEY ARE
NOT REDUCING SPANISH PRICES AS THEIR SOURCING MIX IS SUCH
THAT LOWER U. S. PRICES HAVE BEEN BALANCED OUT BY
INCREASES IN THOSE OF GERMAN AND JAPANESE.

4. IMPORTERS, EITHER LOCAL BRANCHES OF U. S. FIRMS HERE
OR EXCLUSIVE DISTRIBUTORS, NORMALLY SOURCING IN US BY AND
LARGE HAVE PASSED ON ALL OR MOST OF DEVALUATION SAVINGS.
THOSE NOT PASSING ALONG ENTIRE REDUCTION REPORT INCREASED
SALES, HOWEVER, AS THEY NOW WORKING HARDER TO PUSH
PRODUCTS WITH NEW HIGHER PROFIT MARGINS. SOURCES IN
ELECTRONICS AND DATA PROCESSING EQUIPMENT REPORT MOST
U. S. SUPPLIERS HOLDING TO THEIR OLD PRICES. HOWEVER, ONE
PARTICULARLY STRONG U. S. SUPPLIER WITH SIX MONTH ORDER
BACKLOG IMMEDIATELY INCREASED FACTORY LIST PRICES IN
DIRECT PROPORTION TO DEVALUATION.

5. US SUBSIDIARY OF MULTINATIONAL IN ELECTRO- MEDICAL
FIELD, I. E. X- RAY, NUCLEAR MEDICINE, REPORTS THAT TWO
YEARS AGO US SOURCE PRICES WERE 20 PERCENT ABOVE COMPETITION.
NOW WITH COMBINATION DOLLAR DEVALUATION AND INFLATION IN
FRANCE AND GERMANY IT CAN SOURCE IN US AND BID AT COM-
PETITIVE PRICES. HOWEVER, SOME US SUPPLIERS, FINDING
THEIR RETAIL PRICES CONTROLLED WITHIN US, SEEK TO
COMPENSATE BY INCREASING THEIR EXPORT PRICES, MOSTLY BY
REDUCING DEALER DISCOUNTS. LOCAL SPANISH PRODUCTION
(X- RAY EQUIPMENT) WAS MUCH MORE COMPETITIVE IN THIRD
MARKETS; ONLY REASON WHY U. S. PARENT IS NOT OUTSELLING
IN THIRD COUNTRIES IS BECAUSE IT IS HAVING TROUBLE FILLING
ORDERS IN US. SPANISH FIRMS ARE IMPORTING MORE
COMPONENTS FROM US. PARENT FOR ASSEMBLY HERE INSTEAD OF
FROM THIRD COUNTRY SISTER COMPANIES. OVERALL, BETWEEN
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US PARENT AND OTHER COMPANIES REPRESENTED IN SPANISH
ELECTROMEDICAL MARKET, EXPECT TO INCREASE IMPORTS FROM
US BY 50 PERCENT THIS YEAR.

6. MAJOR SPANISH IMPORTER OF SURGICAL MEDICAL EQUIPMENT
REPORTS THAT WHILE MUCH US EQUIPMENT IN THE VANGUARD OF
TECHNOLOGY AND WELL KNOWN IN SPAIN THOSE ITEMS THAT HAD

EUROPEAN COMPETITION WERE PRICED OUT OF THE MARKET.
NOW THEY CAN ENTER SPANISH MARKET SUCCESSFULLY, ESPECIALLY
AGAINST FORMERLY DOMINANT JAPANESE WHO HAVE NOT BEEN ABLE
TO REDUCE THEIR YEN PRICES VERY MUCH.

7. WHILE PRICE COMPETITION IS IMPORTANT IN CONSTRUCTION,
ROAD BUILDING/ EARTHMOVING EQUIPMENT SIZE, TYPE OF JOB
AND GENERAL ENGINEERING FACTORS PROBABLY MORE IMPORTANT.
DEVALUATION HAS BEEN VERY HELPFUL AGAINST EUROPEAN
SUPPLIERS OF LIGHT TO MEDIUM SIZED EQUIPMENT. FOR VERY
HEAVY, VERY LARGE TYPE EQUIPMENT WHICH CURRENTLY IN BIG
DEMAND HERE COMPETITION SUBSTANTIALLY AMONG US
PRODUCERS - NOT ALL OF WHICH HAVE PERMITTED CUSTOMER TO
SELECT SOURCE.
FOR PUMPS, VALVES AND COMPRESSORS US WAS DOING FAIRLY
WELL BUT SHOULD IMPROVE POSITION NOW . MAJOR LOCAL
ENGINEERING FIRM ADVISED EMBASSY THAT IT JUST PLACED
LARGE ORDER IN US WHEN PREVIOUSLY IT WOULD HAVE BOUGHT
IN ITALY.
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